

St. Michael's

University of St. Michael's College Alumni Newsletter

Vol. 25, Special Issue Fall 1987

ST MICHAEL'S PRESENT AND FUTURE A Special Presidential Report

ED'S NOTE: These are exciting and challenging times for St Michael's; times of great opportunities for development, but times that call for hard decisions based on hard facts, decisions that involve present sacrifices for future gains. These decisions, facts, challenges and sacrifices are of concern to all the members of the St Michael's Community; the alumni in particular have long shown by their support their special interest in and sense of responsibility for the College's continued strength and future. For several months Fr. McConica, after much analysis, discussion and thorough consultation with financial advisors and representatives of the different segments of St Michael's, has been informing the Alumni Board and other local interested groups of St Michael's financial situation and the measures recommended to ensure the College's continuance and growth. Although alumni have been involved in various ways in the studies recently conducted, have been present at public meetings to discuss the issues, and have been part of the process resulting

Photo: USMC ARCHIVES



in the recommendations made to the Collegium of the University of St Michael's College, the vast majority of

the alumni have not, understandably, been able to be present to be more actively a part of this long and at times painful but fruitful review. To inform the alumni of the nature of the process, of the financial situation of St Michael's and of the recommendations made to deal with that financial situation, Fr. McConica has prepared this Special Presidential Report so that you will have as complete a knowledge as possible of the important developments taking place in the history of your College.

From the Alumni President

Dear Fellow Graduates
of St Michael's,

The fact that St Michael's College, or any other educational institution, is facing a serious financial problem is not new news. The history of the Col-

lege can be seen as a continuous series of financial crises stretching back over one hundred and thirty years. There are a number of facts, however, that make the current situation different

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from those we have faced in the past.

Fr. McConica and the Collegium are attempting to implement a carefully developed long-term plan that will not simply solve our current problems, but will also put the College on a sound financial footing for the years to come. Secondly, they have sought advice from all groups within St Michael's College as well as from knowledgeable and experienced individuals from the financial and business sectors of society, and they have

kept the College community informed of the process at every step.

This *Newsletter* is part of that process. Earlier this year I served as chairman of a committee that explored possible uses of the only major latent asset the College has: the Bay Street property. That experience made clear to me the gravity of our present position and the thoroughness and soundness of Fr. McConica's analysis. I am convinced that the development of the Bay Street property is an essential part of any viable plan to ensure the long-

term survival and growth of the College.

I urge you to read this *Special Presidential Report*, for it deals with the very existence of St Michael's College. Should it raise any questions in your mind, please feel free to contact Fr. McConica, Fr. Madden, or myself.

Sincerely
Chris Driscoll 7T6
President,
St Michael's
Alumni Association

OUR FINANCIAL FUTURE

James McConica, C.S.B., F.R.S.C., President and Vice-Chancellor

I wish to take this opportunity to inform the alumni of some important developments which involve them and their interests at St Michael's directly. These developments are financial. They are not of recent origin, nor a product of bad management, but rather the result of a historic change in the nature of our institution. We owe to the efficiency of our Bursar's Office and to the dedicated work of our Finance Committee, under the Chairmanship of Bill Moher (4T9), a former President of our Alumni Association, the first steps in an energetic and well-informed attack on a very grave problem.

To those who graduated before 1970, St Michael's will be remembered as an intimate place where priests and sisters were much in evidence, taken for granted as part of our campus. For a long time it seemed that this picture would never alter. Graduates of the last ten to fifteen years could testify, however, to a changing scene. Probably it is those who have been here during all that time who alone have a real grasp of what has happened. Our Faculty, both lay and religious, has been eroded through the steady play of retirements. Some of those losses have been replaced by faculty cross-appointed from the appropriate University of Toronto departments, but the number of those on contract with St Michael's has diminished steadily. This trend poses a serious threat to the very character and identity of the College, a matter which we must address on another occasion; it will be a central concern for the development we

plan over the next fifteen years. In the short run, however, it is the particular loss of members of religious communities from our Arts and Science Faculty which poses a further, urgent problem of a purely financial kind.

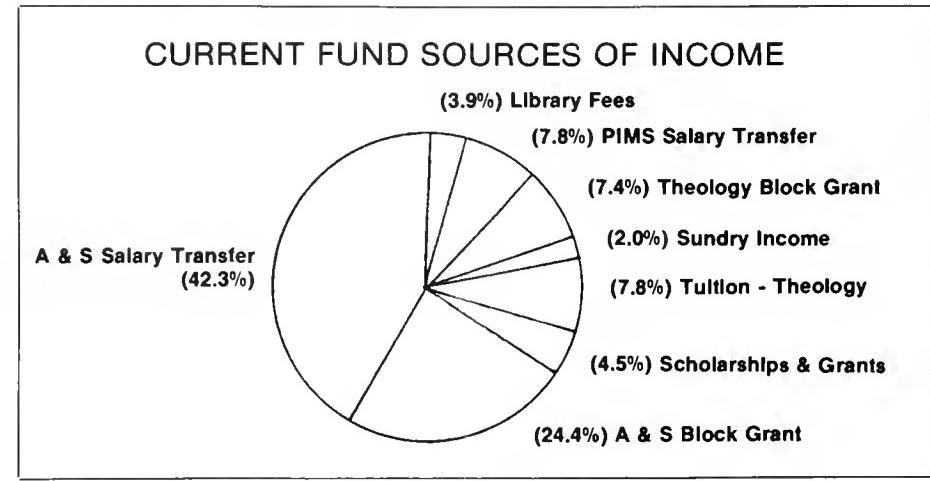
The Living Endowment

The religious on our staff have been referred to from time to time as our "living endowment" for the excellent reason that they have traditionally returned a large portion of their stipends to the support of the institution.

Since the 1974 Memorandum of Agreement this has been particularly important. At that time, all of those teaching in Arts and Science at St Michael's, religious as well as lay faculty, were put on full salary at the University of Toronto scale. The Basilians Fathers, much the largest religious community, return 50% of their salaries in cash, and a considerable portion of the remainder through

their annual gift to the Varsity Fund. Members of other religious communities have taken less than their full salaries, the balance going to St Michael's as a "contributed service". Either way, this annual donation of cash and service has played the same part at St Michael's that the substantial endowments in property and equities have played at Trinity and Victoria Colleges: it has provided us with money needed to cover our annual operating deficit — or did until 1983. Since then, the retirement of senior people, the constant rise in operating costs and the inelasticity of our operating income (derived from the Provincial Government through our agreements with the University of Toronto under the Memorandum) have produced an annual unfunded deficit which by now has reached serious proportions.

Operating Income 1986-1987



Our first diagram shows the sources of our operating income in the last financial year. The largest single source is the Arts and Science salary transfer, paying the salaries and benefits of all of the College Arts and Science Faculty. This is supplemented by the "Block Grant" which pays a considerable portion of the cost of running the undergraduate teaching at St Michael's. Together, they represent some replacement of the income which we formerly gained from fees, but which we now (since 1974) transfer to the University of Toronto.

While faculty salaries benefit from any increases awarded by the University of Toronto, the Block Grant is comparatively inflexible. It does not in any case provide for capital maintenance or improvement, which must be paid for from our endowment income. A year ago, an architectural survey estimated that we face a bill of \$10 million just to bring all the buildings on our campus up to standard, without taking into account any extensive renovation.

The other chief divisions of St Michael's, apart from the undergraduate College, are the Faculty of Theology, and the Pontifical Institute of Mediaeval Studies. Fees in Theology are set jointly by the member colleges of the Toronto School of Theology; they are supplemented by a direct

Photo: R. Javorsky, Architect, Inc.



Deterioration of paint, woodwork and masonry. Windle House (#5), considered in better condition than several other buildings on campus.

grant from the Provincial Government worked out according to a complicated formula. The Pontifical Institute has an annual, fixed grant for salaries from the University of Toronto, established some years ago, which at present pays little more than half of the real cost of the teaching in that important institution. A renegotiation of this grant arrangement

jointly by St Michael's and the Institute is a high priority, but we cannot expect this to occur without an extended and persistent effort.

I have to point out that our relationship to the University of Toronto also puts us at a grave disadvantage in attempting to control the salaries and wages of faculty and staff who are not provided for by the Salary Transfer or Block Grant. Negotiations between the University of Toronto and the Faculty and Staff Associations each year establish increases in salaries and benefits through a process in which the Federated Universities have no part. However, those increases, which in recent years have risen sharply, establish a general level of expectation across the campus at the University of Toronto. Trinity College and Victoria College have always passed on those increases, and we have attempted to do the same. However, this means that in the most expensive sector of our annual budget, that of salaries, we do not enjoy effective control over our own economy. In the matter of pensions, too, the University of Toronto has made awards which are extremely difficult for us to finance, although we are legally bound to pass on those benefits at least to all of those on our pension plan who are in Arts and Science. We would like in principle to pass them on to the others, as well.



Photo: R. Javorsky, Architect, Inc.

More House: instance of extreme corrosion of pipes and flanges in steam system.



Photo: R. Javosky, Architect, Inc.

Example of present wiring in Elmsley Place houses.

Since these awards, too, have risen sharply in recent years, all of the Federated Universities are experiencing difficulty in meeting them, but none with resources as slender as those of St Michael's.

In light of this, it is remarkable that our annual expenditures in the past decade have followed the inflation rate closely, but this restraint has been achieved at the cost of stringent economies which in the long run (as with the maintenance of our buildings) prove to be expensive indeed.

How the Deficit is Financed

The annual budget at the University of St Michael's College (including not

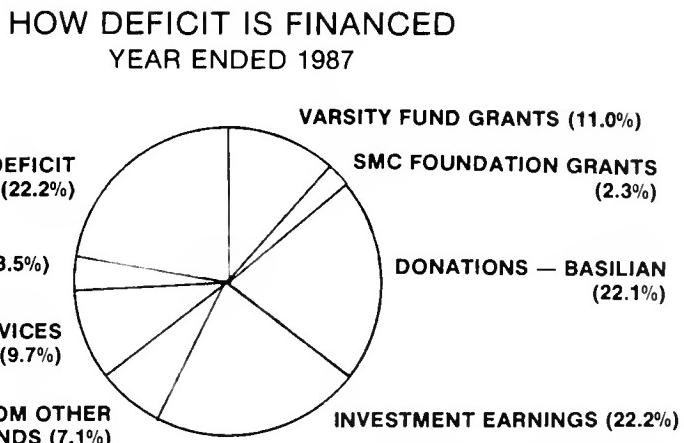
only the undergraduate College, the Faculty of Theology, the Pontifical Institute of Mediaeval Studies, but also our new, still modest, but very active Division of Continuing Education) runs to about \$10 million. The operating deficit last year was \$2,931,000. Our second diagram shows how this deficit was financed. Some 22% (about \$650,000) came from investment earnings, including those of the Mediaeval Studies Foundation at the Pontifical Institute (by way of instructive comparison, Victoria College, with almost the same registration as St Michael's, last year applied some \$2 million from investment income to meet its operating deficit). Another 2% came from the St Michael's Founda-

tion, and 11% from the Varsity Fund for 1986. By far the largest portion came from the contributions of our religious: 22% from the Basilian Fathers, an amount equal to all of our investment earnings, and a further 10% from religious sisters and some individuals. In all, the "living endowment" accounted for 32% of the operating deficit, and it was still insufficient to cover the whole, which left us with an unfunded deficit of some \$650,000, a further addition to our bank debt.

The Future of the Living Endowment

To meet this situation we have reorganized our administration and our business office in particular for greater efficiency, and reappraised every operation from the reporting of departmental expenditures to the management of our investment portfolio. We have also worked systematically, with new appointments, to upgrade the professional qualifications of our staff, a move which is already bringing a harvest of new economies. We aim to make St Michael's a leader among Canadian universities not only in academic distinction, but also in the efficiency and professionalism of its operation. In every Division of U.S.M.C. the need to replace faculty is urgent, but for the financial reasons already indicated, we have had to hold the line on new appointments except where absolutely necessary. As difficult as our present situation is, a simple calculation shows that the present difficulty is as nothing compared to what faces us some five years hence.

We have selected the Basilian Fathers for our illustration since they are the largest single group comprising the "living endowment". Like the other religious communities here, they will continue to supply St Michael's with new members, and the Basilian Fathers have indeed made St Michael's their priority institution over all others for academic vocations. Such vocations, however, are not common, and in any case, appointment is now a much more complex process since it must take into account the priorities of the university departments as well as our own. The curve you see could be projected also for the other religious on our Faculty; indeed,



that curve would drop rather earlier. What leaps to the eye, of course, is that at normal retirement rates, and assuming there are no other losses through death or resignation, the present contribution of more than a half-million dollars annually will drop catastrophically after 1992. We are therefore confronted by the need to increase our annual income by more than \$1 million annually as soon as possible, even to meet the present operating deficit, without mentioning the need for very substantial increases in capital for renovation of our physical plant. We are really facing a refinancing of the whole of our endeavour in a way that will end its dependence on the financial contributions of those in religious vows, and provide a firm financial base for future renewal.

Finding New Income

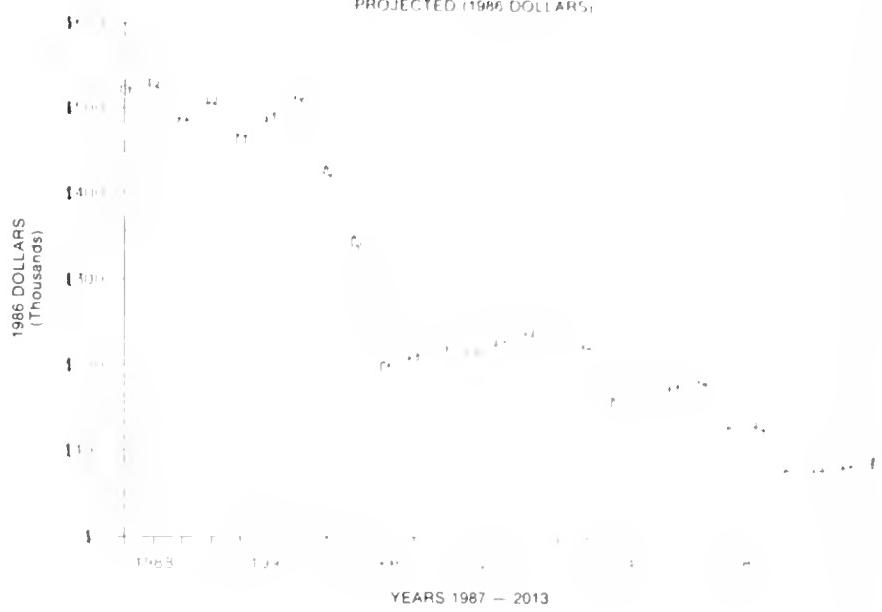
As a result, the administration at St Michael's has been looking at potential sources of new income for more than a year. We are not the only university doing this of course, but our situation is the most urgent of any we know.

The Government has been suggested by some as a source, especially after the issue concerning Separate Schools was settled in Ontario in favour of increased funding. This is not an avenue that appears to be open to us. Our access to government funding is controlled entirely by our Federation with the University of Toronto, according to the Memorandum of Agreement signed in 1984, a revision of the original Memorandum which actually improved our earlier financial position. This arrangement means, however, that our income from the public sector is closely tied to our teaching in Arts and Science, and that we have no access to funds for capital improvements. Like the other Federated Universities (Trinity and Victoria) St Michael's is expected to maintain its buildings, Library, and operations other than those directly related to the teaching of Arts and Science from its own resources.

A campaign among the alumni and with corporations has also been suggested, especially since we have never made a major appeal on such a scale. Again, there are grave difficulties. The University of Toronto is itself prepar-

BASILIAN FATHERS — DONATIONS

PROJECTED (1986 DOLLARS)



ing to launch a major funding drive early in 1988. To go to the same market with a separate campaign for some \$20-\$25 million, one quarter of the likely goal of the University of Toronto, is scarcely thinkable. We would also run into the serious obstacle that corporate donors do not, and may not, use their gifts to endow institutions, although they may give for a specific project. This means that we would be looking for our endowment purely from private sources, and our alumni already top all other Varsity Fund constituencies with their annual giving. I have not had occasion to mention the mounting of a multi-million dollar campaign at this point to the Alumni Board, but I am confident they would not, understandably, relish the prospect!

As a Second Phase of our solution to St Michael's financial problems, we do intend in the first instance to join in the University of Toronto's campaign, and to ask for a significant increase in the annual Varsity Fund giving for that period of five years in order to attract matching dollars from the corporate gifts to the University of Toronto. This campaign will be for

specific joint-objectives on our own campus, and in all likelihood it will be the first phase of a long term campaign to take us to our Sesquicentenary. You will be hearing more about all of this early next year. First of all, however, we must secure St Michael's financial base with an endowment fund as a pre-condition of such a long-range campaign. We can then face our public with confidence, and assure our donors that the money they give will be a secure investment for the future of St Michael's College.

Finally, some have referred to the Archdiocese as a source of funding. Here, St Michael's will have to fit into a wide range of obligations which have to be met by the Archdiocese of Toronto, and we can scarcely count on receiving massive amounts on the scale outlined above. We do indeed hope to secure the cooperation of the Archdiocese for the Second Phase campaign which I have just mentioned, and in particular, to approach the new Catholic population of this region in connection with the renewal of St Michael's. But again, this must come after Phase One, when we shall have secured our financial base.

Our Approach to the Problem

These matters have been the great concern of the Finance Committee for many months, and I would like here to record my thanks for their unstinting help. In addition to the Bursar, Father Robert Hale, and myself, the members are William Moher, Vice-President, Human Resources and Management of Imperial Oil Limited (Chairman); Brian O'Malley, President of Standard Trust; Thomas di Giacomo (6T4), President of Manufacturer's Life; Kenneth Oswell, Senior Partner of Touche Ross; Brian Anderson (5T7), Past President of the Alumni Association and a pension and investment consultant; and (since last January) Joan Johnston (6T8) Vice-President for Marketing Services, Bank of Montreal. Our auditors, Price Waterhouse, and the Toronto Dominion Bank, who have pressed the urgency of the situation, have also been helpful in exploring the various avenues open to us. By the autumn of last year it was clear that we had to look seriously at converting our only latent asset, the Bay Street frontage, to revenue-generating capital use.

A solution based on development of that frontage is inevitably an emo-

tional issue for all constituencies of St Michael's. The space presently occupied by three tennis courts and a basketball court is available for recreation during the summer months (when in point of fact, our students are away) and some of the Spring and the Fall. The adjacent field is an ideal place for soccer and football practice in the autumn, although it is not large enough to provide a professional field. Perhaps above all, this open space is a gracious reminder that no neighbouring institution on Bay Street is as old as St Michael's, a survival from another age. The land was purchased by the Basilian Fathers of Annonay in 1853 and, until the 1970's when it was planted, remained a sandy field for various sports. Nevertheless, it was a significant part of the total physical assets provided by the founding religious community to sustain St Michael's. The Basilian Fathers, who thus have more reason than any other group in St Michael's to feel attached to the property as it is, have taken the view that it provides a providential benefaction from the founders of the College for the unforeseen time when the Basilians and other religious communities would no longer be able to

support St Michael's from their contributed services and would have to bring into play other of their resources. Nevertheless, the importance of this property as a place for undergraduate recreation cannot be overlooked in any future disposition of the land, and it may indeed provide the answer to the provision of much better, all-year-round, athletic and other facilities for the use both of our resident and commuter student population (the latter, as a matter of interest, now outnumber the former by more than two to one).

In order to insure that the matter was looked at carefully, and its implications thoroughly weighed, I established an Advisory Committee to the Collegium to represent all constituencies of the College. Its mandate was to insure that the final use of the property "is in the best financial, educational, spiritual and social interests of St Michael's College." The Committee was chaired by the President of the Alumni Association, Chris Driscoll (7T6) and included the Acting Principal, Professor Barry Brown; Gregory Ross, the President of SMCSU; Father Gerald Gregoire, C.S.B. Pastor of St Basil's Parish; Thomas di Giacomo and William Moher from the Finance Committee, and myself. The work of the Committee was made known through the St Michael's *Bulletin*, and the Chairman reported to the Collegium in February. In order to encourage discussion and to disseminate the information gathered by the Committee, an open meeting was held in the Senate Chamber, Alumni Hall, on the evening of 17 March, attended by students, faculty and some alumni of St Michael's. I presented an overview of our financial situation; Chris Driscoll reported on the work of the Committee, while Bill Moher and Tom di Giacomo spoke for the Finance Committee. Questions emerged about the possibility of solving our worries simply by selling the "density" (the amount of building on site allocated to St Michael's under the City of Toronto's development plan) to a developer interested in building on another site in this general area. The Collegium in March asked that this avenue be explored further. Meanwhile, our discussions were picked up by the *Toronto Globe and Mail* which, on 18 March gave a prominent and full

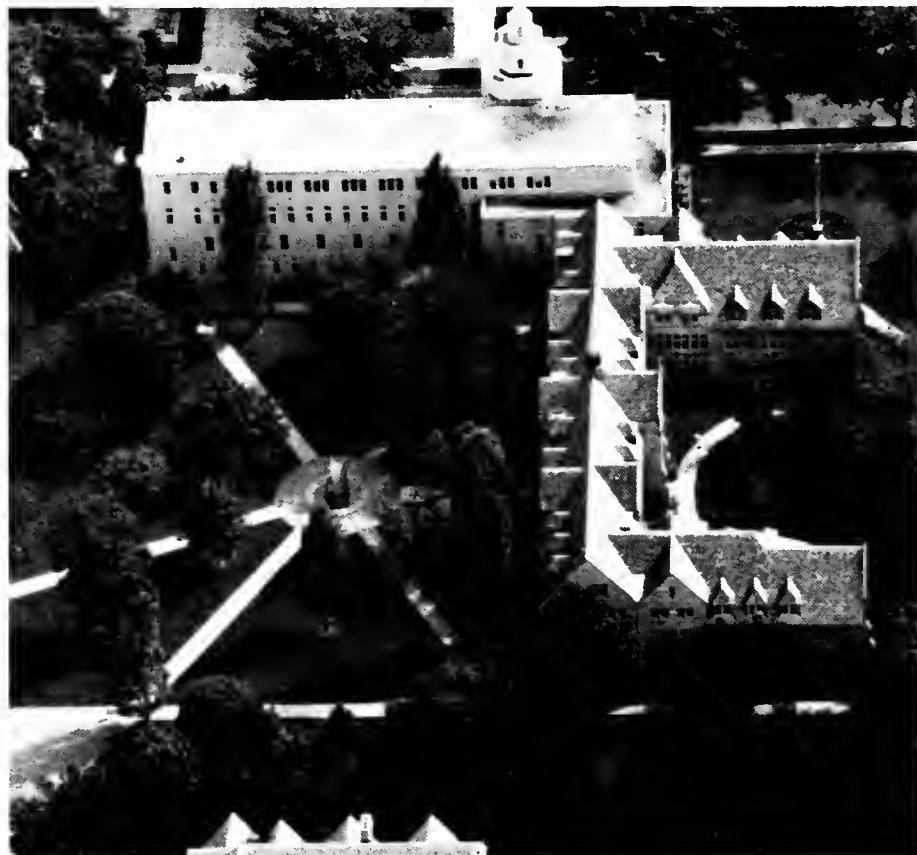


Photo: W.H. O'BRIEN, C.S.B.



Photo: W.H. O'BRIEN, C.S.B.

account. We welcomed this, as a great help in making our concerns known throughout the local community. Further discussions were held with the planning department at City Hall, and in April, the Commissioner of Planning and Development replied at length to a letter inquiring about the prospects for a transfer of density. This reply, reported to the Collegium on 28 April, made it clear that transfer of density rights to a different site is not a useful option for St Michael's. It was then decided that we had no alternative but to use the return from development of the Bay Street land to establish an endowment fund.

The presence on the Advisory Committee of Father Gregoire underlines a concern of which I have said nothing to this point. St Basil's parish is the oldest foundation on our campus, and for many years it financed the nascent College of which it was an intimate part. Although for many decades the parish has been a virtually independent body, its buildings and the land on which it stands are owned by the Collegium. It is now badly in need of major capital improvements to provide an adequate rectory, renovation to the Parish Hall, and in general, a physical plant which is in keeping with the needs of an inner-city church. The parishioners are generous in support, but are naturally constrained by doubt about the future of buildings which the parish does not own. The needs of St Basil's, then, must be part

of our general concern for the future, if only as an obligation of justice.

At this point, the Advisory Committee and the Collegium judged that only speculative information could be gathered by further consultation with individuals or groups of individuals, however expert; we would also be in danger of putting our resources into the hands of interested parties. It therefore empowered the Executive Committee to issue a proposals call when it judged it appropriate, in order to consult the market openly. This was authorized because of the long summer break, but we took advantage of the Spring Reunion to make a further presentation of the issue to interested alumni who returned for that occasion in June.

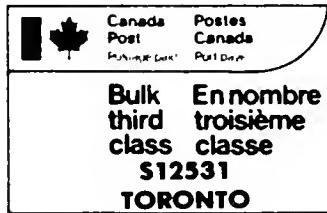
On 14 July, such a call was sent to some 65 companies in Toronto, inviting them to make proposals for development of the land through leasehold, joint venture, or sale. This was necessary to insure that our concerns would receive the widest attention in the financial community, and that the response would be competitive. A select committee was set up including the President, the Chairman, William Moher, and Thomas di Giacomo of the Finance Committee, the Superior of the Basilian Fathers (as the representative of the Superior General), along with members of the real estate and financial community in Toronto, and legal counsel, expert in the field. All members of this committee con-

tribute their time and must declare conflict of interest. They will be responsible for a preliminary vetting of the various suggestions in light of the interests of St Michael's, and will then present a short list of candidates for the consideration of the Collegium, which alone can make the final decision. Proposals are to be in by 11 September. A preliminary report may be ready for the first meeting of the Collegium on 30 September, or perhaps made to a special meeting in October. We shall look for a decision at the regular monthly meeting on 27 October.

How the Money will be Used

The use of this money will be fairly evident from what has been said already. Our chief concern is to increase our operating income to a point where our general expenses can be met without deficit by establishing an endowment fund. No capital so gained is to be diminished in any way. If possible, we shall hope to include a programme of systematic renovation among these general expenses, including some of the needs of the Parish, most certainly those of the undergraduates, in a better provision for their experience on our campus. In that respect, alumni in particular should be reminded that the Chaplaincy, Library and Theatre are all parts of the present undergraduate resources, and that none of these generate significant income. By securing our ordinary "operating costs", therefore, we are securing to future generations of St Michael's students much that is now taken for granted.

Above all, we shall be securing our continuance into the next decade. Not even the most generous estimates of the return from the Bay Street property suggest that we can do more; the matter is as starkly simple as that. So we shall continue to need our vital annual giving in the Varsity Fund, and we shall need as well a major campaign to fund new appointments. However, when we ask future donors to contribute to those objectives, we shall be able to point to a secure financial foundation for this venerable institution well into the future, a foundation that will insure the use of their gifts for a second start, to take St Michael's into the next millennium with fresh enterprise and with vigorous roots.



The University of St. Michael's
College
Alumni Newsletter

Published twice a year by
the Alumni Association
81 St. Mary Street
Toronto, Canada M5S 1J4

Editor: Robert Madden, C.S.B.

Typing and coordinating:
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With special thanks to:
Chris Driscoll 7T6, President,
Alumni Association

Fr. Fred Black, C.S.B., 4T6,
U.S.M.C. Archivist

Mrs. Mary Lee

Typesetting and Layout:
Wordmakers

R
S
E
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